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# ICPS newsletter

## Ukraine's consumer confidence took a downturn for the first time since 2000

*During Q1'02, the consumer confidence of Ukrainians fell; the CCI value dwindled by four points over this period and stopped at 90.9. Aggravated negative expectations among Ukrainians as to the development of the national economy was the primary cause pushing down consumer confidence. The results of the consumer survey conducted among Ukrainians will be published in the next issue of the Consumer Confidence bulletin, to be released this week. The consumer confidence survey is a joint project of the International Centre for Policy Studies and GfK-USM company*

The results of the March opinion poll show that compared to last December, the Consumer Confidence Index (CCI) dropped by 4 points, to 90.9 (possible range being 0–200). For the first time in the history of the quarterly Ukrainian consumer confidence project, which was inaugurated in June 2000, consumer confidence has deteriorated.

Consumer confidence worsened following intensified negative expectations as regards economic development. The corresponding Index of Economic Expectations (IEE) dropped by 7.3 points during Q1'02 and in March equaled 99.2 (an index value under 100 signals that currently pessimistic economic expectations dominate among consumers). The trend of changes for the worse in the economic expectations of Ukrainian consumers has been observed since the beginning of this year. Till that moment, the IEE had been climbing steadily, starting in December 2000, and during the second half of 2001 optimistic expectations dominated among Ukrainians (the IEE exceeded 100).

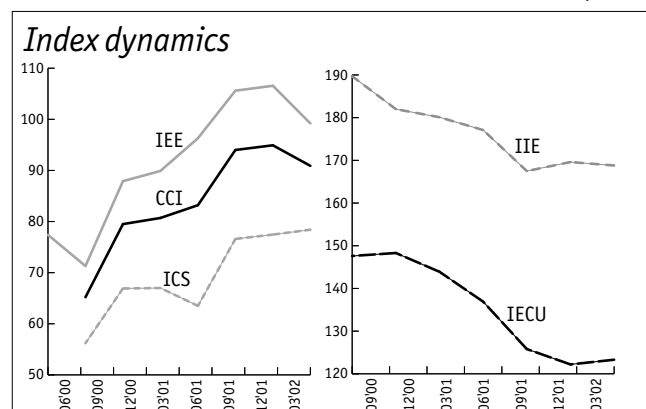
Increased negative economic expectations among Ukrainians were accompanied by

deterioration of their confidence as regards the unemployment dynamic. For the first time since March 2001, the survey registered a rise in the number of consumers expecting that the unemployment rate would increase over the year (the corresponding Index of Expected Unemployment Dynamics picked up by 1.1 points). In the meantime, the deflation that occurred in Ukraine during Q1'02 slightly improved expectations regarding the consumer inflation dynamic over the next several months; the Index of Inflationary Expectations diminished by 0.8 points and stood at 168.8.

Regardless of the worsened economic expectations, the survey showed an improvement of the current situation of Ukrainian consumers. Specifically, the Index of Propensity to Consume rose by 4.3 points over the last quarter and in March stood at 72. By and large, the propensity of Ukrainians to consume has been on the upswing for three quarters in a row. That is, each of the three recent surveys has signaled that increasingly more consumers consider the present moment to be on the whole a good time to make large household purchases. The propensity to

make large purchases apparently increased, thanks to bigger real household savings that occurred at the previous year-end. Household savings increased because the income growth rate grew faster, with the consumption rate remaining unaltered.

We believe that the major factors prompting



### Dear readers,

We would like to notify you that the International Centre for Policy Studies has moved to a new office.

Our new address:

13-A Pymonenko Street, Kyiv 04050 (from the Lukianivska metro station, got to the end of Studentska Street, then turn left)

Tel/fax: (044) 239-9726

Since telephone connections will only be fully restored at the end of May, the most convenient way to reach ICPS in the interim will be by e-mail. Our e-mail addresses remain unchanged.

first the consumer confidence stabilisation and then their deterioration were the slowed growth of the economy on the whole, and of industrial growth in particular. Another factor which apparently influenced the negative consumer confidence during Q1'02 were the parliamentary elections to the Verkhovna Rada of Ukraine; this event exacerbated the feelings of uncertainty among consumers. And expectations of possible political instability worsened the pessimistic attitudes as regards development of the national economy.

### Index values

Index of current personal financial position (x1)	84.7 -2.5
Index of expected changes in personal financial position (x2)	102.2 -5.1
Index of expected economic conditions in the country within the nearest year (x3)	94.5 -6.2
Index of expected economic conditions in the country within the nearest 5 years (x4)	101.0 -10.7
Index of propensity to consume (x5)	72.0 +4.3
<b>Consumer confidence index (CCI)</b>	<b>90.9 -4.0</b>
Index of the current situation (ICS)	78.4 +0.9
Index of economic expectations (IEE)	99.2 -7.3
Index of expected changes in unemployment (IECU)	123.3 +1.1
Index of inflationary expectations (IEE)	168.8 -0.8

## Eastern population even more pessimistic

Over Q1'02, consumer confidence declined across all the regions of Ukraine, except for Kyiv and the southern oblasts. The pessimism escalated the most in the Eastern region, where the CCI diminished by 7.5 points and equaled 76.2, while the IEE fell by 11.8 points, to 82.3. Therefore, the CCI is smaller in the east than the national average by 14.7 points, and the Index of Economic Expectations (IEE) is lower by 16.9 points.

Consumer confidence in the Eastern region have been worsening for two quarters in a row. In general, during September 2001–March 2002 the CCI in the Eastern area dipped by 13.5 points. Consequently, the CCI value registered in March 2002 almost equaled its corresponding value one year earlier. Since the deterioration of consumer confidence in the Eastern region was already in evidence during the previous opinion poll, we can maintain that residents in Eastern regions were the swiftest to respond to the decelerated economic growth in Ukraine that had commenced at the end of last year.

## Consumer confidence weakens in small and medium cities

Analysis of the index by the type of inhabited locality shows that consumer confidence in Q1'02 worsened largely due to the more pessimistic attitudes among the residents of small- and medium-sized cities of Ukraine. Along with that, the consumer confidence in rural areas and in big cities altered just slightly (corresponding CCI values declined by 1 point [each]).

In our opinion, it was the consumers from small and medium cities who responded to the decelerated industrial growth rate which unfolded back at the end of last year. Consumers residing in big cities are less sensitive to changes in industry, for the economy of big cities is more diversified and a significant share of people there is involved in the service sector.

As throughout the country, over Q1'02 expectations among the residents of big cities regarding economic development deteriorated; the IEE decreased by 4.9 points and equaled 97.2. In spite of this fact, during the indicated period the propensity to consume increased sizably in the big cities; the corresponding index rose by 12.7 points and reached 82.2. Such a result evidently shows that although the

## How consumer confidence index is calculated

*In Ukraine, the CCI is determined through a random survey of the country's households; the survey includes 1,000 people aged from 15 to 59. Statistical deviation does not exceed 3.2%.*

*To define the CCI, the respondents are asked the following questions:*

- 1. How has the financial position of your family changed over the last six months?*
- 2. How do you think your family's financial position will change in the next six months?*
- 3. Speaking of the economic conditions in the country as a whole, do you think the next twelve months will be a good or bad time for the country's economy, or something else?*
- 4. And if we are to speak of the next five years, will they be for the country's economy a good or bad time?*
- 5. Speaking of large purchases for the home (such as furniture, refrigerator, household gadgets, TV set), do you think it's generally a good or bad time to make those purchases now?*

*With regard to each of these questions, the corresponding index is calculated:*

- index of current personal financial position (x1);*
- index of expected changes in personal financial position (x2);*
- index of expected economic conditions in the country within the nearest year (x3);*
- index of expected economic conditions in the country within the nearest 5 years (x4);*
- index of propensity to consume (x5).*

*Indexes are constructed in the following way: from the portion of positive answers the portion of negative answers is deducted, and to this difference 100 is added in order to eliminate the appearance of any negative values. On the basis of these five indexes, three aggregated indices are calculated:*

- consumer confidence index (CCI)—arithmetic average of indexes x1–x5;*
- index of the current situation (ICS)—arithmetic average of indexes x1 and x5;*
- index of economic expectations (IEE)—arithmetic average of indexes x2, x3, and x4.*

*Index values range from 0 to 200. The index value equals 200 when the entire population positively assesses the economic situation. The index totals 100 when the shares of positive and negative assessments are equal. Indexes less than 100 indicate the prevalence of negative assessments.*

number of consumers noticing that Ukraine's economic situation is getting worse has increased, the number of consumers believing that now is a favourable moment to make large household purchases has increased simultaneously.

## The rich and the young grow more pessimistic

The CCI values calculated for well-off Ukrainians and low- and average-income groups both fell by 7.7 points. Besides, the well-to-do turned out to be the only group that displayed less propensity to consume compared to last year's survey (the corresponding index dropped by 12.4 points and totaled 91.7). Hence, we conclude that well-off consumers are more inclined to believe that negative changes in the economy will affect their personal well-being.

For the first time in the project's history in Ukraine, consumer confidence in the youngest age group (15–30 yrs.) receded;

the corresponding CCI value fell by 3.2 points—from 109.1 in December 2001 to 105.9 in March 2002. Unlike the two previous opinion polls, in March this year most young people did notice any improvements in their material situation over the last six months; the corresponding index equaled 98.2 points.

The consumer confidence of middle-aged Ukrainians (31–45 yrs.) plunged the most. Unlike the two other age groups, consumer confidence in this group has been looking down for two consecutive quarters. The corresponding CCI value in March 2002 stood at 86.8 points, which was 7.6 points lower than the maximum value for this age group, registered in September 2001. Additionally, middle-aged Ukrainians became more pessimistic as regards not only unemployment, but inflation as well. ■

*For more detailed information on the CCI survey results, please contact Evgenia Akhtyrko at tel: (38-044) 239-9726, e-mail: eakhtyrko@icps.kiev.ua.*

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*ICPS Newsletter* editor Olga Zakharchenko ([ozakharchenko@icps.kiev.ua](mailto:ozakharchenko@icps.kiev.ua)).

English text editor D. (Ksenia) Ovcharenko.

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